In the

Supreme Court of the United States

October Term, 1945

No. 202

THE STANDARD REGISTER COMPANY,

Petitioner,

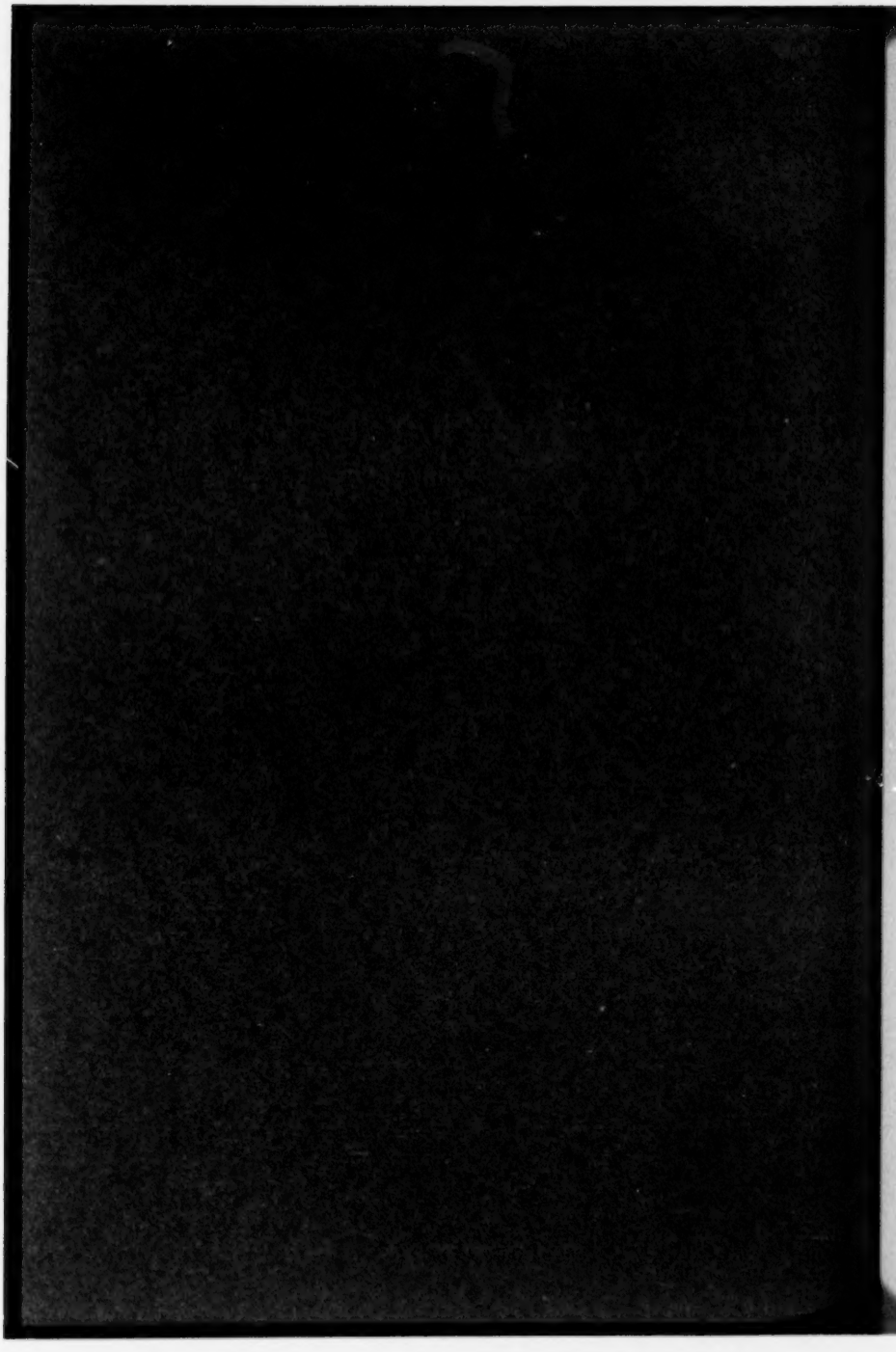
vs.

AMERICAN SALES BOOK

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

Counsel for Respondent.

July, 1945.



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The decision below of the Circuit Court of Appeals for the Second Circuit (148 F. 2d 612; R. 76), affirming the judgment of the district court for the Western District of New York (opinion, 56 F. Supp. 475; R. 145) was right. The courts below correctly applied the "misuse of patents" rule stated in *Carbice* v. *American Patents,* 283 U. S. 27; *Morton Salt* v. *Suppiger Co.,* 314 U. S. 488; and other cases.*

Petitioner's brief does not assert that the decision below is in conflict with that of any other court, nor do we know of any conflict.

The decision was that patent suits brought by petitioner against respondent should be dismissed because of peti-

**Leitch Mfg. Co.* v. *Barber Co.,* 302 U. S. 458; *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495; *Mercoid Corp.* v. *Mid-Continent Inv. Co.,* 320 U. S. 661.

tioner's misuse of the patents. Petitioner's business "is primarily the sale of marginally punched business forms" which are "unpatented" (stipulation, R. 37), and the patents were on machines for feeding and aligning the unpatented paper forms when used with typewriters, tabulating machines and the like. The misuse consisted of petitioner requiring each user of the paper forms, to whom petitioner leased one of its feeding devices, to sign a License, listing fifty United States patents, several Canadian patents and "other patents pending" (stip., R. 37, 67, 70), which purport to cover the feeding device—not the paper used with it, the License containing wrongful provisions.

1. The License provided that the patent license and lease "shall continue only so long as the User purchases from the Owner" a specified minimum amount of the paper, and does not use with the licensed device paper bought from others (License, R. 39). Thereby, petitioner, by its patents on the device, sought to control or affect purchases of unpatented paper. Although petitioner had the right under the patent laws to sue for infringement of its machine patents anyone who made, sold or used infringing machines, petitioner could not properly use machine patents to restrain competition in unpatented paper supplies, as the courts below correctly decided.

Thus in the *Morton Salt* case, as here, the patentee leased the machine covered by the patent upon the condition and with the agreement of the lessee that only the lessor's salt tablets be used with the machine. This Court held that this was a misuse of the patent barring the patentee from relief in a court of equity for infringement of its patent monopoly, since the natural effect of this pro-

vision was to restrain competition with the patentee's unpatented salt tablets.

In *B. B. Chemical Company* v. *Ellis,* 314 U. S, 495, there was not even an express condition or agreement that the licensed process be used only in connection with fabric purchased from the licensor. It was held that as the licensor's sale of unpatented fabric, for use with the patented method, operated as a license to use the patented method only in connection with such fabric, the arrangement constituted an improper attempt to use the monopoly of the patent to restrain competition in the sale of unpatented material.

Petitioner argues that the decisions below held that any use of petitioner's feeding machine patents to aid its business in the unpatented paper forms was unlawful, and misquotes respondent's position by saying "Petitioner is charged solely with 'using the monopoly of the patents here in suit for the purpose of aiding *Plaintiff's (petitioner's) business in such paper forms*'* (brief, pp. 9, 16), although the charge was '*unlawfully* using the monopoly,'" etc. (R. 2). Such unlawful misuse was precisely that which this Court disapproved of in the *Carbice, Morton Salt* and similar decisions.

2. The License also contained the following provision:

> "The User accepts this licensed property and agrees that the licensed property is the property of the said Owner and that the title to it is and shall remain in said Owner, and agrees not to directly or indirectly contest the validity of the Letters Patent of the Owner covering the licensed devices or mate-

*Italics petitioner's.

> rial or both; or of patents subsequently obtained by the Owner covering the same, of which notice is given to the User; this obligation to apply during the life or term of said patents; * * * (R. 39).

This provision was also asserted by respondent to constitute a misuse of patents, but the district judge concluded otherwise (R. 52); and the opinion of the Circuit Court of Appeals does not mention it.

However, it seems plain that this also is a "misuse", because a lessee of petitioner's feeding device is thereby deterred from using a competitor's feeding device. If the lessee be sued on petitioner's patents for use of the competitor's device, the lessee is deprived of the very valuable defense that the patents are invalid. It is true that in such case petitioner is using its machine patents against competing machines, and not to restrain competition in unpatenter paper, but the "misuse" here is an agreement beyond the ordinary patent license estoppel that the licensee can not dispute validity as to the things licensed, because the agreement here is unlimited, covering things not licensed, such as competing devices, and extending to "patents subsequently obtained" by the Petitioner, i.e., even after the signing of the License.

3. Petitioner says (brief, p. 16) that the following paragraph in the License shows that there is no misuse, viz:

> "But nothing herein shall be deemed to restrict the User in the purchase of continuous manifolding form material from others than Owner, or to limit the User in the purchase, lease or license of feed aligning devices of others excepting that no license is to be implied hereby under the patents referred to in Schedule One as to such products of others."

Plainly, this provision does not cure the objectionable features of the License. If, under this provision, a lessee of petitioner's feeding device buys paper forms, or another feeding device, from one of petitioner's competitors, he is not relieved of the obligation to buy the specified minimum amount of forms from petitioner in order to maintain his license, nor is he relieved from the admission of validity of petitioner's patents under which he may be sued, because this provision expressly states that no license is to be implied as to either the competitive forms or the competitive feeding devices.

4. In this Court, as in the courts below, petitioner asserts that the "misuse of patents" doctrine does not apply unless the misuse is shown to have caused, or that it probably will cause, a "monopoly" (petitioner's brief, pp. 8 through 10, 16 through 21) and that "The mere fact that the patents are used as an inducement to purchase or as an incentive to use Petitioner's continuous forms is not a showing sufficient to make the resulting restriction unlawful as against public policy" (brief, p. 20). But it is "misuse" if the patents are used in the attempt to cover things outside the patent monopoly, as this Court held in the *Morton Salt* case. There, the Seventh Circuit Court of Appeals decided that the "misuse of patents" doctrine required antitrust violation, and that there was no misuse unless competition was substantially lessened or there was a tendency to create a monopoly, 117 F. 2d 968. But this Court reversed, saying (314 U. S. 488, 490):

> "The question we must decide is not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to pro-

tect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article".

CONCLUSION

The courts below rightly decided that the patent suits brought by petitioner should be dismissed because of petitioner's misuse of the patents in suit, in accordance with the *Carbice, Morton Salt* and other cases. There is no conflict of decisions nor other reason why the petition for certiorari should be granted.

Respectfully submitted,

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July, 1945.